American Bankers Association
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Submitted via Email: regs.comments@federalreserve.gov

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW.
Washington, DC 20551

Re: Amendments to the Stress Test Rule-Midsize Bank Concerns

To Whom It May Concern:

The American Bankers Association[1] (ABA) is pleased to submit comments on the notice of proposed rulemaking[2] titled "Amendments to the Capital Plan and Stress Test Rules" (Proposed Rule) published by the Federal Reserve Board (Federal Reserve). The Proposed Rule is part of the Federal Reserve's effort to implement the company run stress testing requirements of section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act[3] (Dodd-Frank Act).

The stress testing requirements have a significant impact on midsize banks—those generally ranging from $10 billion to $50 billion in total consolidated assets. For that reason ABA formed a stress testing working group of such midsize banks (Stress Testing Group) to consider stress testing issues and proposals, and particularly to evaluate how stress tests will affect their operations. This letter reflects the work of the ABA's Stress Testing Group. It is offered in addition and complementary to other views on the Proposed Rule submitted by ABA jointly with another financial trade association.

The Proposed Rule would change when the annual capital plan and stress test cycle begins from October 1 to January 1. This change would become effective for the stress test cycle beginning January 1, 2016. This proposed shift in the stress testing cycle would align the disclosure of midsize banks stress testing results with the large bank mid-cycle results. ABA is concerned the Proposed Rule's shift in the stress testing cycle will encourage greater comparison between midsize banks and CCAR banks subject to the capital plan rule, a comparison that could be problematical if not misleading, given the significant differences in the stress testing programs.[4]

[1] The American Bankers Association is the voice of the nation's $14 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $11 trillion in deposits and extend nearly $8 trillion in loans. Learn more at www.aba.com.
[2] 79 Fed. Reg. 37420 (July 1, 2014) at http://www.gpo.gov/fdsys/pkg/FR-2014-07-01/pdf/2014-14357.pdf.
[3] Pub. L. No. 111-203, 124 Stat. 1376 (2010).
[4] Midsize banks will disclose annual results from October 15 through 31 and large banks will disclose mid-cycle result from October 5 through 20.

We urge the Federal Reserve to continue to distinguish midsize banks' stress testing requirements and results from those for the CCAR banks. While purposes may be similar in the larger view, in the details and structure of the stress testing programs, the two sets of tests are significantly and appropriately different, tailored to the size, business models, and nature of these banks. Recognizing and maintaining those differences in stress test programs is consistent with recent statements from Federal Reserve policymakers. We cite, as prominent examples, recent statements by Governor Tarullo.[5]

In that regard, ABA urges the Federal Reserve to adopt a more flexible, tailored, stress testing regime for midsize banks. Specifically, ABA urges the Federal Reserve to—

- Limit public disclosures to the aggregate results of midsize banks as a class; and,

- Provide a floating submission date for midsize banks.

Disclosure of stress testing results should be limited

The stress test regime developed by the Board of Governors, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation, pursuant to provisions of the Dodd-Frank Ac, require midsize banks to evaluate, report to regulators, and publish a summary of the results of a firm's company run stress test. This company-run process, which is growing in importance as a supervisory tool, is intended to ensure banks hold sufficient capital to continue operating under multiple stressed scenarios, adding an important forward-looking tool to supervisors' consideration of banks' capital management programs.

Compared to larger banks, midsize banks are still in the early stages of building stress testing programs. After being granted a one-year delay, midsize banks filed their first stress testing submission in March 2014. Midsize banks appropriately were not required to publish the results of their first submission. The first public disclosure of stress testing results is scheduled to be in June 2015. To date, little guidance has been given as to what such a summary should include, or how the results will be used in evaluating capital adequacy for the affected banks.

To their credit, regulators have taken a tailored and flexible approach to midsize bank stress testing models. Because of this flexibility, however, stress testing results—valuable for evaluating each bank's individual program—will not be a helpful tool to compare institutions. The results will appropriately be based on significant and necessary variations in modeling for

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[5] "… let me end by making clear that a one-size-fits-all approach is no more appropriate [in stress testing] than in most other areas of prudential supervision. While forward-looking assessment is important for capital planning in all banking organizations, the specific, sophisticated character of the kind of stress test we ran this year is surely neither necessary nor suitable for smaller banking organizations." (Remarks to the Federal Reserve Bank of Chicago Annual Risk Conference: Developing Tools for Dynamic Capital Supervision (Apr. 10, 2012) transcript available at http://www.federalreserve.gov/newsevents/speech/tarullo20120410a.htm). See also, "Of course, I would not lump all 80 of these institutions into the same category for purposes of specifying the aims of regulation. In particular, only a small fraction of these firms have a significant enough systemic footprint that their stress or failure would impose sizable negative externalities on the rest of the financial system." ("Rethinking the Aims of Prudential Regulation" (May 8, 2014) available at http://www.federalreserve.gov/newsevents/speech/tarullo20140508a.htm).

each bank, taking into account different local economic and business risks conditions, dissimilarities in business models (agricultural risks will vary for a Midwest bank and a northeast urban-based bank, for example), and other relevant factors, important for the particular institution but not necessarily so for others. The different stress assumptions applied by one bank could make it look, inaccurately, to be in better or worse condition than its peers. Public disclosure of exam-quality information could be misleading without the benefit of the full context of data used in applying the stress tests. That information, however, is necessarily confidential to promote the candor and ensure the rigor of the tests. Similar reasons govern the confidential treatment of CAMELS evaluations by bank supervisors.

Stress testing results could also be misinterpreted by investors and the general public when compared with the results of larger banks subject to agency-administered tests, because the economic scenarios required by the banking agencies are national scenarios that may not be as relevant for banks with regional geographic footprints or certain idiosyncratic business models. We understand the national market and systemic arguments for public disclosure of elements of the CCAR results. Those arguments do not apply in the case of midsize banks, which do not present national economic or systemic issues.

ABA strongly believes that the results of company-run stress tests should remain a supervisory tool, and we oppose any substantive disclosure of company-run stress testing results for midsize banks. We recognize that the Dodd-Frank Act does require disclosure of "a summary of results." However, we believe an aggregate summary for midsize banks as a class would meet that obligation. Disclosure of an aggregate summary, compiled by the Federal Reserve, would further distinguish midsize bank stress tests from the CCAR applicable to the largest banks and enhance the use of stress testing as a supervisory tool.

The Federal Reserve should provide a floating submission date for midsize banks

We urge the Federal Reserve to provide for a floating submission date under which a bank must submit its results, using the previous year's stress scenarios, within a year after the scenarios are released. A floating submission date would allow banks to conduct their stress tests during their capital planning process, which, depending on the institution, do not occur at the same time of year for every bank. A flexible submission date would allow banks to conduct the stress tests when they have the resources most efficiently available to do so. Moreover, a floating submission date would serve to distinguish the stress testing conducted by midsize banks from the stress testing conducted by CCAR institutions.

Thank you for considering the concerns raised in this letter. We appreciate the opportunity to share our views. If you have any questions, please contact Hugh Carney, Senior Counsel, of ABA at (202) 663-5324.

Sincerely,

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